

**STATEMENT BEFORE THE HOUSE  
COMMITTEE ON BUDGET  
HOUSING AND INFRASTRUCTURE TASK FORCE**



**MAY 25, 2000  
WASHINGTON, DC**

**BY**

**SAUL N. RAMIREZ  
DEPUTY SECRETARY**

Thank you for allowing us this opportunity to testify on the Department's computer matching income verification efforts. For the first time in the history of public housing, we have a tool for assisting the department in furthering its goal of targeting rental assistance only to eligible families and ensuring that each family pays the correct amount of rent.

The Department acknowledges that more could be done to assure only eligible low income tenants receive HUD rental assistance and to assure that all tenants pay their fair share of rent as required by statute. We are aware -- indeed we have estimated -- the size of possible under-reporting of income. And, we are moving to do more by implementing an income verification program under the authorities given us by the Congress.

We are confident that our computer matching income verification efforts will improve the targeting of our scarce rental subsidy dollars, make the administration of these programs more fair, and bring in additional resources to offset the cost of reaching more of the 5.4 million low-income families who have severe housing needs.

The complexities associated with providing eligible individuals with the correct level of rental assistance are numerous. First, we cannot act alone in this area. As you know, HUD has no direct relationship with the tenants who benefit from our programs. Rather, both tenants and our partners who provide the housing each have a direct responsibility for correctly determining the rental assistance. Tenants must accurately and completely report their income to their housing managers -- the Public Housing Authorities and private owners, and agents who administer our rental assistance programs. In turn, the housing providers have ultimate responsibility for verifying tenant incomes and setting the rents correctly. Our new computer matching tool is designed to dramatically

improve the information our partners need to fulfill their income verification responsibilities.

In addition, comparing IRS or Social Security data with the income reported by tenants is not a straightforward calculation. Great care must be taken in drawing conclusions from the matching process because there are many reasons that IRS data, for example, might indicate that an improper underpayment is occurring when, in fact, it is not. Legislation over the years has given different housing providers wide discretion or varying directions in how they set rents, calculate tenant contributions and go about recovering excess rental assistance. These differences include exclusion of specific types of income from rent determination calculations and the establishment of rent ceilings that do not go up with increases in household income. Recent legislation has added additional variables in the form of longer intervals between recertifications for tenants under some of the Department's programs which means that increases in a tenant's income may not be captured in a timely manner by the recertification process.

Frankly, until now the Department's past efforts to enhance the effectiveness of POAs' (Private Owner or Agent) efforts to ensure that low income-eligible families receive the correct level of rental assistance have been limited. Beginning in the mid-1980's and continuing until 1992, the Department performed several narrow matches of tenant-reported income with tenant income supplied by State wage agencies and the Office of Personnel Management to identify under-reported income and excess rental assistance. The Omnibus Budget Reconciliation Act of 1993 allowed the Department to expand its computer matching efforts to include Federal tax information provided by the Internal Revenue Service and the Social Security Administration. There are a number of laws and

other requirements to adequately safe guard the privacy of this sensitive data, for example Section 6103 of the Internal Revenue Code (IRC) and the Computer Matching and Privacy Protection Act of 1988. HUD and its partners have worked diligently on these issues and continue to work on ensuring that this sensitive data remains protected. The Department used that new authority to complete computer matching initiatives focused on individual POAs and on sampling the universe of subsidized tenants to estimate overpaid rental assistance. This sampling was conducted by HUD's Office of the Inspector General with the goal of quantifying under-reported income for financial statement purposes.

The Department is now implementing a large-scale computer matching income verification program. HUD has matched tenant-report income with Federal tax information and has identified approximately 230,000 tenants who under-reported income at some fairly large thresholds levels set by the Department for this initial effort. At this very moment, letters are being sent to those tenants and notifications are being sent to all our housing authorities and landlords requesting that tenants resolve the potential discrepancies we have identified through our income-matching program. The letters to the housing providers do not disclose any income data regarding tenants, but only advise the housing provider to recertify the income of these particular tenants.

HUD has worked diligently with tenant and industry groups to obtain the highest level of support for this initiative. For example, we conducted two training sessions for our partners and stakeholders, soon to be followed by a third. We developed an online guide to help our housing providers in processing and resolving income discrepancies, and we established two call centers to handle both housing provider and tenant inquiries. We

are also including a fact sheet on the income verification program with all mis-match letter that are being sent to tenants.

In the interest of fairness to all parties, the Department is also addressing over-reporting of income and will soon be mailing letters as part of this initiative in the near future to tenants who might not have received all of the assistance to which they were entitled.

This large-scale computer matching program achieves the delicate balance between the needs of tenants, including tenants' rights to privacy and due process, the responsibilities and workload of housing providers, the responsibility to assure fairness among all tenants by assuring that each pays his/her proper amount as require by statute, and the ultimate goal of allocating scarce resources to eligible tenants at correct levels of rental assistance. HUD is undertaking these efforts because of statutory requirements and because it is the right thing to do. It is important to recognize, however, that this income verification efforts is primarily designed to improve voluntary compliance by providing reasonable assurance that tenants pay the proper amount in the future. We do not expect a large windfall from collections of past underpayments, Indeed, we ask POAs to be work with tenants on an prudent payment plan as appropriate that does not overwhelm their finances.

For many years now, the Department's financial statement has reflected an estimate that tenant underpayments total some \$900 million. I think it is important to advise the Committee that this number is a gross estimate of underpayments and not a net amount that could be collected through tenant income verification efforts. For several years, staff conducted a sample of 1,000 households to estimate excess rental assistance.

These estimates were developed under specific parameters and assumptions with numerous qualifying statements and have a wide statistical range \$417 million and \$935 million. It is extremely important to note that these are estimates of total excess rental assistance if all tenants reported income on a retrospective basis. It is not a total of recoverable excess rental assistance. Nor are they estimates of achievable departmental savings.

There are many reasons excess rental assistance cannot be fully recovered by HUD. First of all, our experience with a pilot income verification program indicates that approximately 30% of tenants who have under-reported their income will leave once they are identified before any back rents or future higher rents can be collected. In accordance with recent statutory changes, these tenants will be replaced by eligible households who are predominately very low-income households with the end result probably being little or no significant increased returns to the housing provider. Indeed, in such instances, the rents being paid to the provider for that unit may decrease. Our experience also suggests that even where a tenant agrees to pay off back rent owed, the average length of the agreed-upon payment plan is between 5 and 7 years. Given these circumstances, we do not expect big dollar returns to result from back rent collections under the income verification effort.

Second, while HUD has advised housing providers to pursue cases of blatant fraud, the recovery costs for the run-of-the-mill tenant underpayment can be excessive, and often far exceed any rental assistance that could be recovered. These include direct costs associated with verifying excess rental assistance and recovering funds through the legal system and administrative costs associated tracking recoveries. Businesses

associated with debt collection have often cited 20% as a reasonable estimate of debt recovery, and recent experience with tenant income verification efforts around the country have been consistent with this benchmark. For example, in a recent computer matching initiative, the Dallas Housing Authority identified 95 tenants who received excess rental assistance totaling \$350,000. The housing authority was able to establish repayment agreements with only 17 of these tenants. The repayment agreements totaled \$80,000, or about 20%. The \$900 million figure makes no attempt to calculate these costs of collection.

For all of these reasons – tenant move-outs, high administrative costs, the administrative payments to our partners – the amount of “excess” assistance paid to tenants cannot be easily recaptured by HUD. We believe that more is gained by looking forward than back. In the case of the Dallas Housing Authority, the agency terminated rental assistance to 42 of the 95 tenants who under-reported their incomes – freeing up units for eligible families. Through the use of large-scale computer matching income verification, HUD is providing housing providers with an additional tool to help identify tenants responsible for program abuses. In this first year of large-scale computer matching income verification, HUD is seeking to establish a baseline by which to measure housing provider’s income verification effectiveness and the level of tenant program abuses. This information will allow HUD to effectively target its future enforcement and monitoring efforts to those areas where the problem is most acute.

HUD continues to work to improve its income verification program. The Department needs your support to better serve the needs of those eligible to receive rental assistance.